

# Report of the auditor general to Limpopo Provincial Legislature and the council of the Elias Motsoaledi Local Municipality

## Report on the audit of the financial statements

### Qualified Opinion

1. I have audited the financial statements of the Elias Motsoaledi Local Municipality set out on pages to xx -xx which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects the financial position of the Elias Motsoaledi Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with accordance with South African standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2018 (Act No.1 of 2018) (DoRA).

### Basis for qualified opinion

#### Property plant and equipment

3. I identified a difference of R21 203 357 (2018: R23 688 449) between depreciation and the underlying records. The municipality did not reconcile the difference. Consequently, depreciation stated at R54 177 802 (2018: R53 653 958) as per the financial statements is overstated by R21 203 351 (2018: R23 688 449) and property, plant and equipment is understated by the same amount. Additionally, there was a resultant impact on surplus for the period and accumulated surplus.
4. I identified buildings with a carrying amount of R45 297 603 that meet the definition of Investment property in accordance with GRAP 16, *Investment property*, which was incorrectly accounted for as property, plant and equipment. Consequently, property, plant and equipment stated at R998 680 328 (2018: R952 369 603) in the financial statements is overstated by R45 297 602. I was unable to determine the full extent of the understatement of investment property stated at R58 239 775 (2018: R53 501 215). Additionally, there was a resultant impact on surplus for the period and accumulated surplus.

#### Finance lease obligation

5. I have identified a difference of R8 072 542 between the finance lease obligation and the underlying records. The municipality did not account for finance lease obligation in accordance with GRAP 13, *Leases*. Consequently, finance lease obligation of R23 093 165 as disclosed in note 15 to the financial statements is understated by R8 072 542 and property, plant and

equipment is understated by the same amount. Additionally, there was a resultant impact on surplus for the period and accumulated surplus.

#### Allowance for impairment

6. I identified a difference of R19 396 867 between the allowance for impairment for consumer debtors from exchange transactions and the underlying records. The municipality did not reconcile the difference. Consequently, allowance for impairment of R52 582 997 as disclosed in note 13 to the financial statements is overstated by R19 396 867 and consumer debtors from exchange transaction is understated by the same amount. Additionally, there is a resultant impact on debt impairment, VAT receivable, surplus for the period and accumulated surplus.

#### Landfill site provision

7. I was unable to determine the present value for the rehabilitation of landfill site due to the status of the accounting records. I was unable to confirm the provision of landfill site by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the provision for landfill site of R51 958 701 (2018: R50 958 809) as disclosed in note 18 in the financial statements. Additionally, there was an impact on surplus for the period and accumulated surplus.

#### Revenue from non-exchange transactions

8. The municipality incorrectly accounted for traffic fines receipt of R7 599 206 in revenue for fines, penalties and forfeits instead of reducing the receivables from non exchange transactions. Consequently, fines, penalties and forfeits is overstated by R7 599 206 and receivable from non exchange transactions is overstated by the same amount. Additionally, there was a resultant impact on the surplus for the period and accumulated surplus.

#### Bulk purchases

9. I was unable to obtain sufficient appropriate audit evidence for bulk purchases as the municipality did not maintain proper financial records for bulk purchases invoices before recording in the financial statements. I was unable to confirm the amount of bulk purchases by alternative means. Consequently, I was unable to determine whether any adjustments relating to bulk purchases stated at R73 726 891 in the financial statements was necessary. Additionally, there is a consequential impact on payables from exchange transaction, surplus for the period and accumulated surplus.

#### Cash flow statement

10. SA Standards of GRAP 2, *Cash flow statements*, requires that the municipality summarises the entity's operating, investing and financing activities. The municipality did not prepare and present its cash flow statement in accordance with GRAP 2 as differences were identified. Consequently, the cash flow statement was not properly prepared and presented as a result of the following:
  - A difference of R5 415 886 was identified between cash generated from operation activities and the underlying records.
  - A difference of R33 182 733 was identified between net cash flow from investing activities and the underlying records.

## **Context for the opinion**

11. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
12. I am independent of the Municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

## **Emphasis of matters**

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

15. As disclosed in note 41 to the financial statements, some corresponding figures for 30 June 2018 were restated as a result of errors discovered in the financial statements of the municipality at, and for the year ended, 30 June 2019

### **Significant uncertainties**

16. With reference to note 38 of the financial statements, the municipality is currently involved in litigation with various third parties. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

### **Unauthorised expenditure**

17. As disclosed in note 45 to the financial statements, unauthorised expenditure to the amount of R109 649 323 was incurred, as the total amount appropriated in the municipality's approved budget has been overspent.

### **Fruitless and wasteful expenditure**

18. As disclosed in note 46 to the financial statements, fruitless and wasteful expenditure to the amount of R595 640 due to non compliance with applicable laws and regulations.

### **Irregular expenditure**

19. As disclosed in note 47 to the financial statements, irregular expenditure to the amount of R216 975 283 was incurred due to non-compliance with applicable laws and regulations.

### **Material losses – electricity**

20. As disclosed in note 48 to the financial statements, material electricity losses of R17 995 804 was incurred, which represents 25% of total electricity purchased.

### **Other matters**

21. I draw attention to the matters below. My opinion is not modified in respect of these.

### **Unaudited supplementary schedules**

22. The supplementary schedules set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

23. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **Responsibilities of accounting officer for the financial statements**

24. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and DoTA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
25. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

26. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
27. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Introduction and scope**

28. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
29. My procedures address the reported performance information, which must be based on the approved performance planning documents of the Municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
30. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2019:

<b>Objective</b>	<b>Pages in the annual performance report</b>
KPA 4: Basic services and infrastructure	x-x

31. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
32. I did not raise any material findings on the usefulness and reliability of the reported performance information for this objective

## **Other matters**

33. I draw attention to the matters below.

### **Achievement of planned targets**

34. Refer to the annual performance report on pages x-x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x-x of this report.

## Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 4: Basic service and infrastructure. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

## Report on the audit of compliance with legislation

### Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the Municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

### Annual financial statements

37. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

38. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R595 640, as disclosed in note 46 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA.
39. Effective steps were not taken to prevent irregular expenditure amounting to R49 832 896, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by contravention of supply chain management regulations.
40. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R35 450 000, as disclosed in note 45 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by overspending of the approved budget vote.

### Revenue management

41. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

### Asset management

42. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

## Human resource management

43. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.

## Procurement and contract management

44. A contracts was awarded to a bidder based on preference points that were not calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.

## Other information

45. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the the audit committee's report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected key performance areas presented in the annual performance report that have been specifically reported in this auditor's report.
46. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
47. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the [consolidated and separate] financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
48. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## Internal control deficiencies

49. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
50. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.
51. The basic accounting principles of daily and monthly accounting and reconciling have not been implemented.

52. Supply chain management processes were inadequate resulting in irregular expenditure.
53. The financial statements and other information to be included in the annual performance report are not reviewed for accuracy and completeness by the accounting officer.
54. The municipality did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks, are conducted and that a risk strategy to address the risks are monitored.
55. The internal control monitoring mechanisms of the audit committee and the internal audit are not functioning optimally, as many control weaknesses are only detected during the audit of the financial statements.

Polokwane

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the Municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the, which constitutes the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Elias Motsoaledi Local municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.